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Countrywide Settlement Loan Modification Program Background & Frequently Asked Questions

On Oct. 6, 2008, Attorney General Rob McKenna announced a landmark settlement with Countrywide Financial Corp. to provide loan modifications for up to 395,000 borrowers nationwide under a settlement with Washington and other states. As a result, nearly 10,000 Washington homeowners will receive roughly \$200 million in payment relief.

McKenna and attorneys general representing several states brokered the agreement with Bank of America was reached late Friday after months of negotiations. Bank of America acquired Countrywide Financial on July 1, 2008.

- The settlement will systematically modify troubled mortgages with up to \$8.4 billion in interest rate and principal reductions for nearly 400,000 Countrywide Financial Corporation customers nationwide.
- The settlement program was designed to achieve affordable and sustainable mortgage payments for borrowers who:
 - Financed their homes with subprime loans or pay option adjustable rate mortgages serviced by Countrywide and originated prior to December 31, 2007; and
 - Are seriously delinquent or are likely to become seriously delinquent as a result of loan features, such as rate resets or payment recasts.
- First-year payments of principal, interest, taxes and insurance will be targeted to equate to 34 percent of the borrower's income. Modified loans will feature limited step-rate interest rate adjustments to ensure annual principal and interest payments increase at levels with minimal risk of payment shock and redefault.
- Modification options include, among others:
 - FHA refinancing under the HOPE for Homeowners Program,
 - Interest rate reductions which may be granted automatically through streamlined processing, and

- Principal reductions on Pay Option adjustable rate mortgages that restore lost equity for certain borrowers.
- Some loan modifications will be subject to compliance with servicing contracts and some will require investor approval.
- Countrywide mortgage servicing personnel will be equipped to serve eligible borrowers with new program elements by Dec. 1, 2008 and will then engage in proactive outreach to eligible customers.
- Foreclosure sales will not be initiated or advanced for borrowers likely to qualify until Countrywide has made an affirmative decision on the borrower's eligibility.
- As part of agreements to resolve outstanding claims against Countrywide by certain states, borrowers in participating states will be eligible to access their share of:
 - A Foreclosure Relief Program of \$150 million on a nationwide basis for payment to eligible Countrywide servicing customers who suffered foreclosure or are currently at serious risk of foreclosure having made only minimal payments since the time their mortgages were originated by Countrywide; and
 - An additional program, projected to make payments up to \$70 million to support customers with loans serviced by Countrywide who face imminent foreclosure, providing financial assistance with their transition from home ownership.

Countrywide customers who believe they are eligible for the program can find program information at countrywide.com, or can call 800.669.6607.

Q. Which homeowners will be eligible for a loan modification?

A. Countrywide mortgage servicing personnel will be equipped to serve eligible borrowers with new program elements by Dec. 1, 2008 and will then engage in proactive outreach to eligible customers. While a number of factors will determine eligibility, there are four main factors to highlight:

- First, the program will only be available to Countrywide borrowers who are living in the home. This will not benefit investors.
- Second, to qualify, borrowers must be in either a Countrywide subprime loan or a Countrywide pay option ARM.
- Third, these borrowers must have received their loan between January 1, 2004 and December 31, 2007.
- Fourth, the borrower must be behind on their payments or likely to fall behind.

Q. Why is the plan limited to loans that fit those criteria?

A. The Attorneys General in the negotiating group focused on helping those borrowers who are in most need of immediate assistance. That's why the plan targets Countrywide's riskiest products: subprime loans and Pay Option ARM loans originated since 2004. We examined the delinquency rates for different types of Countrywide loans and found that these were the loans most at risk of default.

Q. This crisis is still unfolding. What if other types of loans start to go bad?

A. Our settlement has substantial reporting requirements so that we will be able to determine if other Countrywide loans begin to experience high delinquency rates. Bank of America has agreed to further discussions if other types of loans develop high delinquency rates.

Q. Will all the subprime and pay option ARM loans be modified?

A. No. Only borrowers with subprime loans and Pay Option Arm loans who have a demonstrated inability to make their loan payments will receive loan modifications. Bank of America has agreed to lower existing loan interest rates as low as 3.5 percent to make the loan affordable. The monthly loan payment, including principal, interest, taxes and insurance, should be between 34 percent and 42 percent of the borrower's gross income. At some point, some borrowers may not be able to be saved. But for those borrowers the program offers cash payments to help them transition to other housing.

Q. What types of modifications will be made?

A. Bank of America will use various tools to affect modifications: 1. The new federal Hope for Homeowners Program will incentivize lenders to re-negotiate loans with principal write downs to restore equity to the home. 2. Interest rate reductions as low as 3.5 percent for 5 years and then moving the interest rate to either the Fannie Mae rate or back to the introductory rate. 3. Creating greater affordability by modifying loans to require interest only payments. 4. For Pay Option ARMs, removing the negative amortization feature, writing down principal to 95 percent LTV, reducing interest rates, and resorting to interest only loans to preserve homeownership.

Q. If someone is currently in a Countrywide loan and is behind on payments or thinks they soon may be, what should they do?

A. Homeowners should call Countrywide if they are behind on their payments and have their loan reviewed as soon as possible. The number they should call is (800) 669-6607. <http://atg.wa.gov/Settlements/default.aspx> We have been encouraging borrowers for months to reach out to their lenders if they think they are in trouble. Those who are current but think they will get behind when their loan re-sets, should also reach out. Countrywide will also be proactively contacting borrowers as well.

Q. What if a Countrywide borrower has already lost their home to foreclosure? What should they do? Will they receive any assistance under the settlement?

A. Washington borrowers who had a Countrywide subprime or Pay Option ARM loan and lost their home to foreclosure due to early payment default or reset default will be contacted by the WA Attorney General and Bank of America via a letter after Dec. 1, 2008, asking them if they will accept a cash payment. The payment amount is yet to be determined until a review of the number of qualified borrowers. Up to 5,000 persons may receive a payment. Payments will be made from Washington's share of the \$150 million national foreclosure fund established by Bank of America. If homeowners have questions, they should call Countrywide at (800) 669-6607.